

**CHAPTER 6****INTERNAL CONTROLS OVER FINANCIAL REPORTING**0601 GENERAL

060101. Purpose. This chapter provides detailed guidance on National Aeronautics and Space Administration's (NASA) financial management internal control program policies, procedures, and responsibilities within the Agency related to ensuring that internal controls are in place for financial reporting as required by Office of Management and Budget (OMB) Circular A-123 "Management's Responsibility for Internal Controls" revised December 21, 2004.

060102. OMB Circular A-123 Revisions. Revisions to OMB Circular A-123 were made to strengthen the requirements for conducting management's assessment of internal control over financial reporting. The advent of the Sarbanes-Oxley Act of 2002, which requires that management of publicly-traded companies strengthen their processes for assessing and reporting on the internal controls over financial reporting, has helped bring the need for greater financial reporting internal controls to the forefront. Revisions to OMB Circular A-123 strengthen federal manager responsibilities in this area. The goal of the financial requirements of OMB Circular A-123 are to aid federal agencies in implementing an internal control program that provides more assurance to Congress and the public that the federal government is committed to safeguarding its assets and providing reliable financial information.

060103. NASA implementation deadline. All affected Federal agencies, including NASA, must be in compliance with the new provisions of OMB Circular A-123 discussed in section 060102 above, as of October 1, 2005 (the beginning of Fiscal Year 2006). Because these provisions are new, NASA's associated guidance is still in development, but is a high-priority focus of the NASA OCFO OQA. The OQA will continue to develop and provide policy, procedures, and tools to facilitate NASA's compliance with the new OMB Circular A-123 requirements. The requirements set forth here are general requirements that NASA shall follow.

0602 REQUIREMENTS

060201. Federal Managers' Financial Integrity Act (FMFIA) assurance. As stated in Chapter 2, General Internal Control Requirements, NASA is required to provide an annual Statement of Assurance for Internal Control over Financial Reporting. This statement is a subset of the overall Statement of Assurance and is based on management's assessment of financial reporting internal control effectiveness.

060202. Senior assessment team. The OQA is responsible for developing a senior assessment team. This team will be in charge of ensuring that the assessment of internal control over financial reporting is conducted as effectively and efficiently as possible. This team is responsible for:

A. Appointing the evaluators who will perform assessments and develop and document the assessment requirements and guidance,

B. Identifying assessment objectives, scope, and other relevant requirements and communicating these to appropriate organizations. This includes the financial reports that will be included in the assessment's scope, and

C. Monitoring assessments and making sure they have been carried out as required.

060203. Assessment levels. Assessments of internal controls over financial reporting must be performed at the entity and activity level. The entity level is a high level assessment of the organization. The activity level assessment focuses on the lowest level; typically the level where actual transactions occur.

060204. Entity assessments. Entity level assessments must reflect each of the five GAO internal control standards described in Chapter 5 of this Volume. For information and communications, for example, the information systems that impact financial reporting should be reviewed.

060205. Activity assessments. These require looking at the details and mechanics of each financial report to assess the level of control. The assessment must include:

A. Accounts. The evaluator must identify those financial accounts or groups of accounts that individually or collectively could have a material effect on the financial report.

B. Transactions. The evaluator must identify the major classes of transactions that materially affect the accounts identified. The assessment should include an understanding of the specific processes and document flow involved in each class of transactions.

C. Process. The evaluator must articulate the process and workflow that links NASA's accounting system to the financial report.

D. Control design. The evaluator must prepare a control evaluation(s) for each significant account or group of accounts that aligns specific controls with management's assertions for each account or group of accounts. It is critical that the assessment determine whether the controls in place are suitably designed to prevent or detect a material error related to an account or group of accounts.

E. Testing. If control is missing or not designed properly there is no reason to test at this point. In those cases, the evaluator must note the deficiencies identified and any suggestions for improvement. Where controls appear to be designed effectively, the evaluator should test those controls to determine the extent to which the controls were applied, the consistency of application, and who applied them. Any findings that appear to be control

deficiencies should be reported. Testing ordinarily includes such steps as personnel inquiries, documentation inspection, control performance evaluation, and control application observation.

060204. Conclusion. Findings and recommendations must be documented after the assessments have been completed. The evaluator should make an overall statement as to the design and operation of the internal controls over financial reporting. This assessment will be forwarded to OQA to prepare the final overall assurance over the condition of financial reporting internal controls.

060205. Documentation. Assessment documentation must be properly managed and maintained. Documentation should consist of electronic and hard copy format and should be maintained by the Senior Assessment Team. This team will be responsible for collecting, verifying and maintaining all financial reporting assessment documentation and providing to auditors, upon request. Documentation should also consist of any materials that record key decisions made by the Senior Assessment Team, such as the assessment methodologies, guidance, and scope and schedule of assessments.